

Franklin Intermediate High Yield Municipal SMA

Commentary | as of March 31, 2026

Key Takeaways

- **Markets:** In the first quarter of 2026, new issuance of municipal (muni) bonds exceeded the average seen in the past few years. The war in the Middle East which began at the end of February continued throughout March, dominating market sentiment during the month. By quarter-end, the yield on the benchmark 10-year US Treasury (UST) note moved 15 basis points (bps) higher to 4.32%, and the yield on the 30-year UST bond increased by seven bps to 4.91%. The US Federal Reserve Open Market Committee (FOMC) meeting held in March to review economic and financial conditions in the United States, left rates unchanged, and the statement and press conference emphasized uncertainty related to the Iran war. The Fed indicated that it would look through any initial oil supply shock effect on inflation to focus on core developments, while also noting a likely dragging effect on the economy; ultimately the Committee retained an easing bias.
- **Contributors:** Overweight allocations to bonds rated A and below.
- **Detractors:** Overall duration which was longer than that of the benchmark.
- **Outlook:** Municipal bond valuations continue to appear attractive, particularly on a tax-adjusted basis. In a more challenging environment, strong bottom-up research and disciplined security selection will be essential to identifying relative value and preserving portfolio quality.

Performance Review

- Rating allocations lifted relative performance. The strategy's tilt toward lower-rated bonds boosted relative results as higher-rated issues tended to underperform during the period.
- Overall, duration held back relative performance. The portfolio had a longer duration than the benchmark and yields were more stable at the shortest end of the curve over the period.
- Exposures to general obligation bonds held back relative results as revenue bonds outperformed over the period.

Outlook

- The robust demand witnessed at the start of 2026 has begun to soften amid rising market uncertainty, while supply has persisted at a record-setting pace. Looking ahead to 2026, demand will play a crucial role as supply is projected to reach historical highs, primarily driven by infrastructure capital requirements that can no longer depend on previous government stimulus programs alone. The muni-bond yield curve shifted higher during the quarter.
- Fundamentals remain stable but slower economic growth will constrain revenue expansion across many sectors, particularly with respect to tax revenues. Rainy-day funds remain healthy at the state and local government levels, which should bolster fiscal resilience despite ongoing expense growth.
- Following the market pullback in March, municipal bond valuations have strengthened and continue to appear attractive, particularly on a tax-adjusted basis. Yields remain above five-year averages, allowing investors to lock in compelling income. In a more challenging environment, strong bottom-up research and disciplined security selection will be essential to identifying relative value and preserving portfolio quality.

Average annual total returns (%) - as of March 31, 2026

Composite	3-Mo*	6-Mo*	YTD*	1-Yr	3-Yr	5-Yr	10-Yr	15-Yr	20-Yr	25-Yr	Inception	Inception Date
Net of Fees	0.16	1.49	0.16	3.80	3.33	—	—	—	—	—	3.49	11/30/2022
Pure Gross of Fees	0.54	2.25	0.54	5.35	4.87	—	—	—	—	—	5.04	11/30/2022
Benchmark	-0.18	1.38	-0.18	4.29	2.87	—	—	—	—	—	3.52	—

*Cumulative total returns

Benchmark(s)

Benchmark = Bloomberg Municipal Bond Index

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What are the Risks?

All investments involve risks, including possible loss of principal. Fixed income securities involve interest rate, credit, inflation and reinvestment risks, and possible loss of principal. As interest rates rise, the value of fixed income securities falls. **Low-rated, high-yield bonds** are subject to greater price volatility, illiquidity and possibility of default. Investments in **underlying funds** are subject to the same risks as, and indirectly bear the fees and expenses of, the underlying funds. **Liquidity risk** exists when securities or other investments become more difficult to sell, or are unable to be sold, at the price at which they have been valued. **Active management** does not ensure gains or protect against market declines. Portfolios focused on a **single state** are subject to greater risk of adverse economic and regulatory changes than a geographically diversified portfolio.

Glossary

A **basis point (bp, or bps)** is one one-hundredth of one percent (1/100% or 0.01%).

Duration is a measure of the sensitivity of a bond's price to changes in interest rates.

A **general obligation bond (GO)** is a municipal bond backed by the credit and taxing power of the issuing jurisdiction rather than the revenue from a given project.

Revenue bonds are municipal bonds that finance income-producing projects and are secured by a specified revenue source.

The **yield curve** shows the relationship between yields and maturity dates for a similar class of bonds.

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The **Bloomberg Municipal Bond Index** is a broad measure of the municipal bond market with maturities of at least one year.

Source: Bloomberg Indices.

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